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Free-Enterprise Weapons

A CIA analyst's study suggests that in one important area—weapons development—American-style free enterprise may be the worst possible system.

Its surprising conclusion is that the Soviet Union's defense production system is far more efficient and less wasteful in many areas than the Pentagon's traditional handling of research, development and production.

U.S. weapons not only cost much more than they should, but take so long to produce that some are obsolete by the time they roll off the assembly lines, according to the CIA study.

The candid, critical evaluation, which runs 107 pages, was obtained by our associate Indy Badhwar.

The CIA author takes particular aim at the Pentagon's "source selection" process—the method by which the armed services choose the contractors who will build their weapons. The fatally flawed process takes longer and costs more than in any other country, the CIA charges.

Expressing a viewpoint that will surely raise eyebrows on Capitol Hill, the study claims that, far from too little competition, Pentagon procurement is crippled by too much.

Weapons research and development "is not a free-market endeavor," the CIA analyst states. He cites some persuasive reasons why civilian-style competition is incongruous in defense-contract bidding:

■ "When airlines want a new aircraft, they do not contract for research and development; the producing companies fund it themselves and the marketplace determines the winners and the prices. Also, there is normally only a single buyer for a weapon system (the government), not multiple customers as in the free-market arena. Unlike the open market scenario, the single defense customer is also the regulator and manager of the R&D project it is buying."

■ In the civilian economy, the market sets the prices; goods move freely in and out of the market; prices fall with reduced demand; labor is highly mobile; production is for inventory, and there are many small buyers.

These factors, which tend to cut costs and encourage efficiency, are not present in the defense market. The prices are set by the amount of money the Pentagon has available; there are extensive barriers to entry or departure from the market; production starts only after the sale is made; there is greatly diminished labor mobility; and prices rise with reduced demand.

In short, the free enterprise system is stood on its head.

Because production is the money-making part of the system, "R&D is likely to get short shrifted," the CIA study charges. The winner of the R&D contract "has the assurance of an inside track in getting the later, more profitable production contract."

And this, the study explains, leads to "underbidding the cost and overoptimizing performance promises in a game of 'liar's dice'" that can have a malignant effect on the whole weapons program. "Contractors are virtually forced by the inherent incentives of profit and survival in the system," the report says, "to do everything they can to win the 10 percent R&D portion of a program so that they can obtain the 'get well' 90 percent production portion."

Layer after layer of bureaucratic paper-piling consumes extravagant amounts of time and manpower at the Pentagon—to say nothing of the huge expenditures by fiercely competing defense contractors trying to land the weapons program.

In the Soviet Union—as well as in Japan and Western European countries—the government "almost invariably select[s] the prime contractor directly and quickly by specialty," the study shows.

"The Soviet approach to source selection differs greatly from that of the United States, and is one of the main reasons why the Soviets are able to get new programs under way so quickly," the study explains. The Soviets assign weapons development to major design organizations according to their specialties, and a "council of chief designers," made up of scientists, designers and engineers, oversees each new weapons program.

Significantly, according to the report, cutthroat competition among Soviet bureaucratic entities for weapon programs no longer exists. The practice of giving two or three designers the same assignment as a competitive incentive was dropped in the 1960s, the intelligence analyst reports.